

EXECUTIVE SUMMARY

Introduction

This *2005 – 2006 Environmental Finance Program Progress Report*, compiled by the U.S. Environmental Protection Agency (EPA) Office of the Chief Financial Officer reports on the activities and initiatives of the Environmental Financial Advisory Board (EFAB) and the Environmental Finance Center (EFC) Network.

Both EFAB and the EFC Network provide unique services to the nation in terms of helping communities find ways to pay for environmental programs and creating incentives that promote environmental stewardship. Together, within the Environmental Finance Program, these entities seek to lower costs, increase investment, and build capacity by creating partnerships with state and local governments and the private sector to fund environmental needs.

EFAB is an independent advisory committee established to advise EPA on environmental financing challenges facing the nation. Chartered in 1989 and operating under the authority of the Federal Advisory Committee Act (FACA), it provides advice and recommendations to the EPA Administrator and program offices on environmental finance issues, options, proposals, and trends.

The board is comprised of 28 members appointed by the Agency's Deputy Administrator, which represent federal, state, and local government; the banking, finance, and legal communities; business and industry; academia; and non-profit environmental organizations. It produces policy and technical reports on a wide range of environmental finance matters of interest to EPA, focusing on environmental finance issues at all levels of government—particularly with regard to their impact on local governments and small communities. The board seeks to increase the total investment in environmental protection by facilitating greater leverage of public and private environmental resources.

The EFC Network, composed of nine centers throughout the nation, is the only university-based organization in the country that provides innovative solutions to communities to help manage the cost of environmental protection. The network works with both the public and private sectors to promote a sustainable environment by addressing the difficult issue of how to pay. The network is supported by EPA's Environmental Finance Program in the Agency's Office of the Chief Financial Officer, as well as by additional funding from other federal, public, and private entities. The centers, each affiliated with an EPA region, are located at the following universities:



- Region 1 EFC at the University of Southern Maine
- Region 2 EFC at the Maxwell School at Syracuse University
- Region 3 EFC at the University of Maryland
- Region 4 EFC at the University of North Carolina at Chapel Hill
- Region 4 EFC at the University of Louisville
- Region 5 EFC at Cleveland State University
- Region 6 EFC at the New Mexico Institute of Mining and Technology

About This Report...

This report contains the complete EFAB progress report for 2005-2006, as well as individual reports for each EFC. A summary of activities conducted by each EFC is presented as the first page in each EFC report, followed by details of completed, ongoing, and future activities of each EFC.

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- Region 9 EFC at California State University, East Bay
- Region 10 EFC at Boise State University

The input of EFAB and the EFC Network provides state-of-the-art expertise in an area outside EPA's core competency of developing and implementing environmental programs. In addition, while the EFCs provide services and advice directly to communities on how to finance environmental protection, they also advise EFAB about what works and what does not work from in-the-field experience. EFAB then combines the real-life scenarios of the EFCs with its members' professional experience and provides valuable guidance and advice to the Agency for moving forward into the future.



Highlights—Environmental Financial Advisory Board (EFAB)

The Environmental Financial Advisory Board (EFAB) made a number of compelling recommendations to the Agency, many of which were adopted. For example, EFAB prepared various reports for the Office of Water; Office of Solid Waste and Emergency Response; Office of Policy, Economics and Innovation; and the Office of Radiation to address subjects of concern. Specifically, the board evaluated or began assessing the following issues:

- **Useful Life Financing of Water Facilities** – How environmental goals and objectives might be more affordable by using debt management practices to reduce the budgetary impact of funding capital expenditures.
- **Watershed/Non-Point Source Financing** – Options for financing non-point source pollution cleanup projects using financing entities within the watersheds of concern.
- **Application of Innovative Finance Techniques in the Transportation Infrastructure & Financial Innovation Act of 1998 to Environmental Finance Issues** – Applying a financing technique known as backloading to brown-fields cleanup/redevelopment and water/wastewater facilities.
- **Combined Operations of the State Revolving Fund Programs** – Whether to allow states to operate their Clean Water and Drinking Water Revolving Loan Funds as one.
- **Innovations in Watershed Financing: The Bay Restoration Fund Act** – Identification of the Bay Restoration Fund Act as an innovative tool.
- **Financial Assurance in RCRA Programs** – The strengths and weaknesses of the current financial test used by corporations to demonstrate they have the capacity to meet financial assurance obligations vis a vis contamination cleanup upon facility closure.
- **Affordability of U.S. Water and Sewer Rates** – Suggestions for helping governments, the private sector, and the general public pay for water and sewer services.
- **Establishing a New SRF Loan Guaranty Program** – Whether loan guarantees could be used by the Agency to help meet the funding demands for water infrastructure.
- **Application of Useful Life Financing to State Revolving Funds** – Making extended term financing of environmental facilities available through State Revolving Funds.

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Highlights—Environmental Finance Center (EFC) Network

The university-based Environmental Finance Centers (EFCs) deal with source water, drinking water, and/or wastewater issues, including smart growth, brownfield redevelopment, green buildings, small business, and sustainability. In addition, while each of the regional EFCs has a slightly different focus and conducts slightly different initiatives to meet goals, they all participate in the same type of activities, described in the following sections.

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TRAINING AND EDUCATION

Many of the EFCs are in the business of providing outreach services by developing tools, training courses, delivering lecture series, or otherwise educating communities and relevant stakeholders about financial issues. The **Northeast EFC (Region 1)**, for example, developed an online course about conservation finance. In addition, it presented a Next Communities Initiative workshop to community leaders and planners, addressing the effective use and implementation of smart growth tools such as model ordinances and financial instruments training. At the same time, the **Syracuse EFC (Region 2)** sponsors quarterly Technical Assistance Partnership Forums for the purpose of exchanging information and maximizing technical assistance resources available to other communities. The Syracuse EFC also held four separate multiple-day training events around New York State about public finance, capital planning and budgeting, municipal bond issuance, computer finance models, rate-setting and analysis, asset management, environmental conflict management and resolution, project financing procedures and regulations, and strategic management.

Meanwhile, the **Maryland EFC (Region 3)** developed the Sustainable Financing Initiative to provide communities with the tools they need to effectively finance and implement watershed protection plans. The Maryland EFC held three workshops, and planned one more, which focused on helping communities overcome barriers to implementing their watershed plans. It also conducted six other training programs on topics such as “Local Officials’ Responsibilities,” “Budgeting from Scratch,” and “Rates and Cost Recovery for Small Systems.” The **Louisville EFC (Region 4)** commenced a series of interactive workshops, with 40 to 50 participants each, that provide technical assistance to improve community participation in brownfields redevelopment. In addition, the **University of North Carolina EFC (UNC EFC, Region 4)** provided six financial planning trainings to small water utilities. The **Great Lakes EFC (GLEFC, Region 5)**, in collaboration with several other organizations, conducted an interactive training session for local development professionals on financing the redevelopment of environmentally contaminated properties.

DIRECT ASSISTANCE

In addition, many of the EFCs work directly with and in communities to assist with specialized needs. For example, the **Syracuse EFC (Region 2)** has received calls from municipal leaders who worked to develop much needed projects but feared they might be rejected by voters due to a lack public understanding.



The EFC worked with several specific communities to involve the public and relay an understanding of the reasoning behind local governments’ decisions to consider or proceed with a particular project. In addition, the Syracuse EFC worked with communities attempting to create equitable user rates as they pursued water and wastewater system improvements.

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The **Louisville EFC (Region 4)** provided technical assistance to brownfield projects in three communities attempting to use environmental insurance. In addition, the EFC developed a practice guide on best approaches for municipal uses of this risk transfer tool. The **UNC EFC (Region 4)** provided direct technical assistance to several communities, helping them, for example, improve a failing water system, expand a sewer system, develop a draft proposal for an innovative finance program for failing septic systems, and develop a rate study and business plan. The **New Mexico EFC (NM EFC, Region 6)** worked with Region 6 states and the New Mexico Environment Department on capacity development assistance, sharing information regarding capacity activities in other states, discussing potential capacity development training programs, and conducting and training staff to conduct capacity assessments. The NM EFC also continued its efforts to assist tribal water systems in improving public health protection. The NM EFC has been working in a partnership with a multi-program engineering and science laboratory and a consortium of universities to assist water systems that might be impacted by the new Arsenic Standard, which limits arsenic concentrations to 10 parts per billion. At the same time, it worked with a tribal water system to evaluate a new method of arsenic removal.

EFC9 (Region 9) continued promoting, developing, and institutionalizing multimedia pollution prevention and resource conservation to businesses in Region 9, while ensuring consistent growth and continuity for regional green business programs. EFC9 provided basic information and presentations on green businesses throughout the region. The EFC also helped new and existing green business programs identify, establish, and expand partnerships with key agencies and public, private, and nonprofit organizations. Using the software tools it developed, the **Boise EFC (Region 10)** extended special technical assistance attention to five communities facing significant financial challenges in implementing improvements to their water or wastewater systems.

TOOL DEVELOPMENT

Most of the EFCs have created reports, Web sites, or other tools and outreach products to disseminate financing information to communities and relevant stakeholders. For example, the **Northeast EFC (Region 1)** developed more than six outreach and educational tools, such as a video, case studies, and model amendments to states' land use control legislation. The **Syracuse EFC (Region 2)**, developed "PMFPTalk," a listserv of nearly 350 active members, providing local government leaders and technical assistance providers a way to submit questions or distribute information. The **Louisville EFC (Region 4)** published a series of practice guides such as: *Brownfields: Historic Preservation As a Redevelopment Option*; *Contaminated Properties: History, Regulations, and Resources for Community Members*; and *Public Involvement: How Active Participation in Environmental Issues and Decisions Makes Economic Sense and Broadens the Knowledge Base*.

The **UNC EFC (Region 4)** made a number of key publications available on its Web site such as an article called *The Painful Art of Setting Water and Sewer Rates*, a model stormwater ordinance for North Carolina, and a report called *Water and Sewer Needs and Capital Finance Strategies in Appalachia*. The **GLEFC (Region 5)** published the second in a series of articles about a study conducted for the National Oceanic and Atmospheric Administration (NOAA) and several other agencies identifying the information and knowledge needs of local coastal resources decision-makers in the Ohio Lake Erie basin.

The **Boise EFC (Region 10)** developed 10 new software tools, including a full-cost pricing model for water utilities, Rate Checkup™, which integrates the EFC's asset refinancing model, known as CAPFinance™, in developing accurate, fair, and equitable user charges for water utilities, and a model to help water systems calculate the impact of new development and design impact fees to recover those costs. The Boise EFC also expanded the Directory of Watershed Resources to function as a national database, allowing other states and regions to add their funding information into the directory. In addition, the Boise EFC worked with other agencies to develop an analysis tool that provides cost information to landowners to assist them in identifying conservation practices on their land.

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CONFERENCES AND WORKSHOPS

As part of their financial outreach efforts, most of the EFCs spend a considerable amount of time organizing or attending conferences, workshops, and other large-venue functions. The **Northeast EFC (Region 1)**, for example, participated in 16 conferences and meetings, ranging from a half-day training event called “Negotiation Skills for Land Conservationists,” to a one-day workshop, “Community Problem-Solving Through Collaboration.” The **Syracuse EFC (Region 2)** hosted more than 10 conferences and gave 17 presentations, ranging from

advice on sustainable development at a Hurricane Katrina “teach-in” to explaining the EFC’s services to a large Chinese delegation at Syracuse University, at state, university, nonprofit, and national and international events.

Likewise, the **Louisville EFC (Region 4)** presented at more than nine meetings/conferences with up to 8,000 participants at each, including “Contamination Information: Source of Stigma or Investment Stimulus?” and “Plots Against the American Dream: Framing Responses to Smart Growth Incentives.” The **GLEFC (Region 5)** convened the fifth year of the BOSS (Brownfields One-Stop Shop) Forum, whose quarterly meetings brought together federal, state, and local government officials with environmental engineers, investment and commercial bankers, insurance executives, real estate professionals, and developers to discuss financial and programmatic solutions to aid Ohio’s small- and medium-sized communities in their redevelopment.

The **Boise EFC (Region 10)** conducted 55 workshops with up to 300 attendees each, including workshops on water utility finances for small water utilities in Idaho, water rate-setting, and asset replacement financing. The workshops included information on planning, budgeting, financial planning, rate-setting, and how the EFC’s financial software tools can help in these areas.

OTHER

EFCs engaged in a wide variety of other activities as well. For example, the **Maryland EFC (Region 3)** participated in a committee whose goal was to devise an implementation plan and identify and make recommendations on a structure for developing a Chesapeake Bay Financing Authority to fund Chesapeake Bay restoration efforts. In addition, the North Carolina Division of Water Quality retained the **UNC EFC (Region 4)** to help develop the state’s model stormwater ordinance. The **GLEFC (Region 5)** commenced a major effort to support the city of Cleveland’s Economic Development Department with the development of a regionwide strategy for an industrial and commercial land bank. In addition, the GLEFC participates as a subcommittee chair in the Greater Cleveland Lead Advisory Council, a consortium of state, county, and municipal governments, and nonprofit organizations, convened to reduce the incidence of lead poisoning.

As part of its drinking water capacity assistance efforts, the **NM EFC (Region 6)** participated in a project to identify and analyze alternatives for small drinking water systems that are not in compliance with drinking water regulations. On a completely different front, **EFC9 (Region 9)** targeted television stations and studios and proposed to adopt the private sector concept of “product placement” to encourage placing environmentally beneficial products and behaviors on television shows. As a result of its efforts, EFC9 expects to develop a partnership with the Disney Environmentality Division to introduce this concept to the Disney television fall shows. The **Boise EFC (Region 10)** provided third-party reviews of financial and management capacity of nine applicants seeking funding from the Idaho Drinking Water State Revolving Fund Program.